

5/24/89

SUBJECT: Expanding agricultural loan linked-deposit program

COMMITTEE: Agriculture and Livestock: committee substitute
recommended

VOTE: 6 ayes--Harrison, Patterson, R. Cuellar, Edge,
J. Johnson, Kubiak

0 nays

3 absent--Earley, Robinson, Waterfield

SENATE VOTE: On final passage, May 4 -- 27-0

WITNESSES: No public hearing

BACKGROUND: The 70th Legislature established an agriculture
diversification grant and linked-deposit program to
help the state agricultural sector.

The linked-deposit program provides loan capital to
finance the processing and marketing of Texas
agricultural products and the development of
alternative crops. The program allows up to \$5 million
in state Treasury time deposits to be placed in state
depository financial institutions at a rate of interest
2 percent below the current rate for a U.S. Treasury
bill of comparable maturity. The state agrees to leave
the deposit in the institution for a set period not to
go beyond the two-year state budget period in which it
is made. In exchange, the institution agrees to lend
the value of the deposit to eligible agricultural
borrowers at a rate not to exceed 4 percentage points
above the interest rate paid on the certificate.

The grant program supports research and innovations to
improve organization and marketing of agricultural
businesses and to commercialize new products and
production processes. Recipients include nonprofit
organizations such as universities, community colleges
or institutions affiliated with small business
projects. State grant money is matched equally with
half the matching money from the private sector. About
\$400,000 was granted in the fiscal 1988-89 biennium.

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DIGEST:

CSSB 1232 would increase the linked-deposit program from \$5 million to \$25 million and would raise the maximum amount of a processing or marketing loan from \$250,000 to \$400,000. No more than \$12.5 million could be used for loans of more than \$250,000.

The bill would allow linked-deposit loans to be used for any purpose the agriculture commissioner decides would promote diversification of agriculture in Texas. The commissioner would have to give priority to Texas farmers and ranchers for linked-deposit loans.

CSSB 1232 would allow grant recipients to match the grant with money, land, buildings, dedicated loan pools, business assistance or any in-kind contribution, in addition to cash. CSSB 1232 would eliminate the requirement that small business incubator grants be used primarily for professional services.

SUPPORTERS
SAY:

The agriculture linked-deposit program was a pilot program that worked well enough to merit expansion to accommodate demand. Processing and marketing loans have been in highest demand. The amount allowed for these loans needs to be increased to accommodate the market, which is mainly for loans between \$250,000 and \$400,000. Raising the maximum would meet this need.

Professionals such as lawyers and accountants often donate their services to business incubators. There is no reason for the state to pay for these services when they often are donated. Not requiring that grants go mainly for these services would save money for other needs.

OPPONENTS
SAY:

No apparent opposition

NOTES:

The committee substitute makes technical revisions.